

# HENRY COUNTY, IOWA

Independent Auditors' Reports  
Basic Financial Statements  
and Supplementary Information  
Schedule of Findings

June 30, 2005

# HENRY COUNTY, IOWA

## Table of Contents

	<u>Page</u>
Officials-----	1
Independent Auditors' Report -----	2-3
Management's Discussion and Analysis -----	4-10
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statements:	
Statement of Net Assets ----- A	11
Statement of Activities -----B	12
Governmental Fund Financial Statements:	
Balance Sheet -----C	13
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets ----- D	14
Statement of Revenues, Expenditures and Changes in Fund Balances -----E	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities-----F	16
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Assets and Liabilities – Agency Funds ----- G	17
Notes to Financial Statements -----	18-33
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Fund Balances – Budget and Actual (Cash Basis) – All Governmental Funds -----	34
Budgetary Comparison Schedule – Budget to GAAP Reconciliation -----	35
Notes to Required Supplementary Information – Budgetary Reporting -----	36
Other Supplementary Information:	<u>Schedule</u>
Nonmajor Special Revenue Funds:	
Combining Balance Sheet ----- 1	37
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances ----- 2	38
Agency Funds:	
Combining Schedule of Fiduciary Assets and Liabilities ----- 3	39-40
Combining Schedule of Changes in Fiduciary Assets and Liabilities ----- 4	41-42
Schedule of Revenues by Source and Expenditures by Function – All Governmental Funds ----- 5	43
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> -----	44-45
Schedule of Findings -----	46-50
Audit Staff -----	51

# HENRY COUNTY, IOWA

## Officials

### Before January, 2005

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Stan Young	Board of Supervisors	January 2005
Gary See	Board of Supervisors	January 2005
Marc Lindeen	Board of Supervisors	January 2007
Carol McCulley	County Auditor	January 2005
Ana Lorber	County Treasurer	January 2007
Bernice Wallace	County Recorder	January 2007
Ken Krabill	County Sheriff	January 2005
Michael Riepe	County Attorney	January 2007
Gary Dustman	County Assessor	January 2005

### After January, 2005

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Tom Young	Board of Supervisors	January 2009
Gary See	Board of Supervisors	January 2009
Marc Lindeen	Board of Supervisors	January 2007
Hettie Meschmann	County Auditor	January 2009
Ana Lorber	County Treasurer	January 2007
Bernice Wallace	County Recorder	January 2007
Allen Wittmer	County Sheriff	January 2009
Michael Riepe	County Attorney	January 2007
Gary Dustman	County Assessor	January 2009



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### Independent Auditors' Report

To the Officials of Henry County:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Henry County, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements listed in the table of contents. These financial statements are the responsibility of Henry County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Henry County at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2006 on our consideration of Henry County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 34 through 36 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Henry County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 and for the year ended June 30, 2002 (neither of which are presented herein). We expressed a qualified opinion on the financial statements for the year ended June 30, 2002 because they lacked the general fixed asset account group. We expressed unqualified opinions on the financial statements for the year ended June 30, 2004. The financial statements for the year ended June 30, 2003 (which is not presented herein) were audited by other auditors who expressed a qualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

*Theobald, Donohue & Thompson, P.C.*

Mt. Pleasant, Iowa  
February 24, 2006

# MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Henry County provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the County's financial statements, which follow.

## **2005 FINANCIAL HIGHLIGHTS**

- Revenues of the County's governmental activities decreased 4.1%, or approximately \$479,000, from fiscal 2004 to fiscal 2005. Property tax increased approximately \$215,000 and operating grants and contributions increased approximately \$121,000.
- Program expenses were 6.7%, or approximately \$737,000, less in fiscal 2005 than in fiscal 2004. Physical health and social services expense increased approximately \$442,000, county environment and education expense decreased approximately \$283,000, roads and transportation expense decreased approximately \$731,000, government services to residents expense increased approximately \$132,000, and administration expense decreased approximately \$363,000.
- The County's net assets increased 3.5%, or approximately \$926,000, from June 30, 2004 to June 30, 2005.

## **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the County's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Henry County as a whole and present an overall view of the County's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Henry County's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Henry County acts solely as an agent or custodian for the benefit of those outside of County government (Agency Funds).

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the County's budget for the year.

Other Supplementary Information provides detailed information about the non-major Special Revenue and the individual Agency Funds.

## **REPORTING THE COUNTY AS A WHOLE**

### *Government-wide Financial Statements*

One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the County's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the County's net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The Statement of Activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The County's governmental activities are presented in the Statement of Net Assets and the Statement of Activities. Governmental activities include public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, and non-program activities. Property tax and state and federal grants finance most of these activities.

### *Fund Financial Statements*

The County has two kinds of funds:

1) Governmental funds account for most of the County's basic services. These focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. These governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Mental Health, Rural Services and Secondary Roads, and 3) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the County's general governmental operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2) Fiduciary funds are used to report assets held in a trust or agency capacity for others which cannot be used to support the County's own programs. These fiduciary funds include Agency Funds that account for E911 surcharge, emergency management services, and the County Assessor, to name a few.

The required financial statements for fiduciary funds include a statement of fiduciary assets and liabilities. Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Henry County's combined net assets increased from \$26.8 million to \$27.7 million, mainly due to additions to capital assets. The analysis that follows focuses on the changes in the net assets for governmental activities.

### Net Assets of Governmental Activities (Expressed in Thousands)

	June 30,	
	<u>2005</u>	<u>2004</u>
Current and other assets	\$ 10,945	10,563
Capital assets	<u>22,643</u>	<u>21,770</u>
Total assets	<u>33,588</u>	<u>32,333</u>
Long-term debt outstanding	425	499
Other liabilities	<u>5,475</u>	<u>5,072</u>
Total liabilities	<u>5,900</u>	<u>5,571</u>
Net assets:		
Invested in capital assets, net of related debt	22,643	21,770
Restricted	4,871	4,791
Unrestricted	<u>174</u>	<u>201</u>
Total net assets	<u>\$ 27,688</u>	<u>26,762</u>

Net assets of the County's governmental activities increased by 3.5 % (\$27.7 million compared to \$26.8 million). The largest portion of the County's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment). Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements—was virtually unchanged at approximately \$174,000 at the end of each year.



**Changes in Net Assets of Governmental Activities**  
(Expressed in Thousands)

	Year Ended June 30,	
	2005	2004
Revenues:		
Program revenues:		
Charges for service	\$ 908	787
Operating grants and contributions	3,758	3,637
Capital grants and contributions	433	929
General revenues:		
Property tax	4,607	4,392
Penalty and interest on property tax	62	82
State tax credits	263	234
Local option sales tax	735	643
Grants and contributions not restricted to specific purposes	213	23
Unrestricted investment earnings	122	82
Other general revenues	120	891
Total revenues	11,221	11,700
Program expenses:		
Public safety and legal services	2,093	2,053
Physical health and social services	1,123	681
Mental health	2,093	1,943
County environment and education	409	692
Roads and transportation	2,603	3,334
Government services to residents	769	637
Administration	1,059	1,422
Non-program	146	270
Total expenses	10,295	11,032
Increase (decrease) in net assets	926	668
Net assets beginning of year	26,762	26,094
Net assets end of year	\$ 27,688	26,762

Henry County's revenues for governmental activities decreased by approximately \$479,000 from the prior year, with property tax revenue up from the prior year by approximately \$215,000, or 4.9 percent.

The cost of all governmental activities this year was \$10.3 million compared to \$11.0 million last year. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities was only \$5.2 million because some of the cost was paid by those who directly benefited from the programs (\$908,000) or by other governments and organizations that subsidized certain programs with grants and contributions (\$4,191,000).

#### THE COUNTY'S INDIVIDUAL MAJOR FUNDS

As Henry County completed the year, its governmental funds reported a combined fund balance of \$5.4 million, which is virtually the same balance as the prior year. The following are the major reasons for the changes in fund balances from the prior year:

- General Fund revenues remained consistent when compared to the prior year. However, General Fund expenditures decreased by approximately \$876,000. The largest decreases were in the public safety and legal service area (approximately \$477,000) and the administration service area (approximately \$356,000). The ending fund balance showed a modest decline of \$15,000 from the prior year to \$771,000.
- Mental Health expenditures totaled approximately \$2,080,000, an increase of 7.3% from the prior year. The Mental Health Fund balance at year end showed a modest decline of \$13,000 from the prior year to \$799,000.
- Secondary Roads Fund receipts increased by approximately \$275,000. Expenditures increased by approximately \$160,000 over the prior year. These changes along with the transfer from the rural services fund of \$856,000 resulted in an increase in the Secondary Roads Fund ending balance of approximately \$362,000, or 16.5%.

## BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Supervisors annually adopts a budget following required public notice and hearing for all funds, except agency funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The County budget is prepared on the cash basis. Over the course of the year, the County amended its operating budget one time. The amendment was made on May 31, 2005. The amendment was made to provide for additional expenditures in certain County departments. No increase in taxes was required.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2005, Henry County had approximately \$22.6 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. This is a net increase (including additions and deletions) of approximately \$872,000, or 4% over last year.

#### Capital Assets of Governmental Activities at Year End (Expressed in Thousands)

	June 30,	
	2005	2004
Land	\$ 3,702	3,702
Buildings, machinery and equipment	3,094	2,865
Work in progress	101	1,147
Infrastructure	15,745	14,056
Total	\$ 22,642	21,770
This year's major additions included (in thousands):		
Two motor graders		\$ 372
Two dump trucks		136
Total		\$ 508

The County had depreciation expense of \$1,221,826 in FY05 and total accumulated depreciation of \$12,331,987 at June 30, 2005.

The County's fiscal year 2005 capital budget included \$968,197 for capital projects, principally for continued upgrading of secondary roads and bridges. The County has no plans to issue additional debt to finance these projects. Rather, the County will use resources on hand in the County's fund balance. More detailed information about the County's capital assets is presented in Note 7 to the financial statements.

### **Long-Term Debt**

At June 30, 2005, the County had \$425,482 in notes payable and other debt compared to \$447,200 last year, as shown below.

	June 30,	
	2005	2004
Notes payable	\$ 81,412	120,348
Landfill closure and post closure costs	174,000	174,000
Compensated absences	170,070	152,852
Totals	\$ 425,482	447,200

Debt decreased as a result of payments on notes payable.

The Constitution of the State of Iowa limits the amount of general obligation debt counties can issue to 5 percent of the assessed value of all taxable property within the County's corporate limits. Henry County's outstanding general obligation debt is significantly below this \$27 million limit. Other obligations include accrued vacation pay. Additional information about the County's long-term debt is presented in Note 4 to the financial statements.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Henry County's elected officials, appointed officials, and county staff considered many factors when arriving at and setting the fiscal year 2005/2006 budget, tax rates, and the fees that will be charged for various county activities. One of those factors is the economy. The County's population has grown 5.8% from 1990 to 2000, compared to the State of Iowa at 5.4% for the same time period. The persons under 18 and the persons over 65 are very close to the State figures. The median household money income (based on 1997 data) is slightly above the State figure of \$35,427 with a County figure of \$37,047. Other factors considered were county to county valuation comparisons, State cutbacks in revenue to counties, and the overall economy that is growing much more slowly than anticipated.

These indicators were taken into account when adopting the budget for 2005/2006. Amounts of disbursements to appropriate are \$13,309,384, an increase of 12% over the final 2004/2005 budget. Property tax increases (benefiting from increases in levy rates) intergovernmental receipts and charges for services are expected to lead this increase. Henry County will use these increases in receipts to finance programs we currently offer and offset the effect we expect inflation to have on program costs. Budgeted disbursements are expected to rise by approximately \$1,600,000. Increases of \$1,200,000 for Roads and Roadway Construction, \$200,000 for HAVA Election Equipment and \$200,000 for MH MR DD Services represent the largest increases. The County has added no major new programs or initiatives to the 2005/2006 budget.

## **CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Henry County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the County Auditor's Office, Henry County, Mt. Pleasant, Iowa.

# HENRY COUNTY, IOWA

## Statement of Net Assets

### June 30, 2005

	Governmental Activities
<b>Assets</b>	
Cash and pooled investments	\$ 5,046,633
Receivables:	
Property tax:	
Delinquent	15,389
Succeeding year	5,128,285
Interest and penalty on property tax	19,598
Accounts	71,585
Accrued interest	886
Due from other governments	383,879
Inventories	194,049
Prepaid expenses	84,775
Capital assets (net of accumulated depreciation)	22,642,689
Total assets	<u>33,587,768</u>
<b>Liabilities</b>	
Accounts payable	149,133
Accrued interest payable	2,239
Salaries and benefits payable	23,042
Due to other governments	171,797
Deferred revenue:	
Succeeding year property tax	5,128,285
Long-term liabilities:	
Portion due or payable within one year:	
Notes payable	40,104
Compensated absences	170,070
Portion due or payable after one year:	
Landfill closure and post closure costs	174,000
Notes payable	41,308
Total liabilities	<u>5,899,978</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	22,642,689
Restricted for:	
General Supplemental	157,893
Mental Health	786,318
Secondary roads	2,551,751
Capital projects	103,290
Rural Services	153,916
Other purposes	1,117,612
Unrestricted	174,321
Total net assets	<u>\$ 27,687,790</u>

See notes to financial statements.

# HENRY COUNTY, IOWA

## Statement of Activities

### Year Ended June 30, 2005

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Service	Grants and Contributions	Grants and Contributions
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety and legal services	\$ 2,092,658	105,679	264,272	-
Physical health and social services	1,122,782	30,596	158,242	-
Mental health	2,092,909	338,787	746,398	-
County environment and education	409,402	27,445	11,608	-
Roads and transportation	2,603,110	72,965	2,559,433	433,450
Government services to residents	768,777	290,307	11,657	-
Administration	1,058,931	21,878	-	-
Non-program	145,954	20,336	6,102	-
Total	\$ 10,294,523	907,993	3,757,712	433,450

**General Revenues:**

Property and other county tax levied for:

General purposes

Penalty and interest on property tax

State tax credits

Local option sales tax

Grants and contributions not restricted to  
    specific purpose

Licenses and permits

Unrestricted investment earnings

Gain on sale of property and equipment

Miscellaneous

Total general revenues

Change in net assets

Net assets beginning of year

Net assets end of year

See notes to financial statements.

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Net (Expense)  
Revenue and Changes  
in Net Assets

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(1,722,707)  
(933,944)  
(1,007,724)  
(370,349)  
462,738  
(466,813)  
(1,037,053)  
(119,516)

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(5,195,368)

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4,607,429  
61,743  
262,624  
734,918

212,914  
425  
122,030  
75,714  
43,803

---

6,121,600

---

926,232

26,761,558

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\$ 27,687,790

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HENRY COUNTY, IOWA  
Balance Sheet  
Governmental Funds  
June 30, 2005

	Special Revenue			
	General	Mental Health	Rural Services	Secondary Roads
<u>Assets</u>				
Cash and pooled investments	\$ 666,295	921,120	119,560	2,246,221
Receivables:				
Property tax:				
Delinquent	10,280	2,610	2,499	-
Succeeding year	3,271,930	830,671	1,025,684	-
Interest and penalty on property tax	19,598	-	-	-
Accounts	11,276	37,414	-	339
Accrued interest	635	-	-	-
Due from other funds	-	-	-	2,005
Due from other governments	59,312	23,304	42,651	189,144
Inventories	-	-	-	194,049
Prepaid expenditures	84,775	-	-	-
Total assets	\$ 4,124,101	1,815,119	1,190,394	2,631,758
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 32,828	22,792	-	65,847
Salaries and benefits payable	9,037	2,297	1,828	7,100
Due to other funds	1,890	115	-	-
Due to other governments	11,829	157,632	-	2,311
Deferred revenue:				
Succeeding year property tax	3,271,930	830,671	1,025,684	-
Other	25,539	2,338	2,068	-
Total liabilities	3,353,053	1,015,845	1,029,580	75,258
Fund balances:				
Reserved for:				
Supplemental levy purposes	157,893	-	-	-
Prepaid expenditures	84,775	-	-	-
Unreserved, reported in:				
General fund	528,380	-	-	-
Special revenue funds	-	799,274	160,814	2,556,500
Capital projects fund	-	-	-	-
Total fund balances	771,048	799,274	160,814	2,556,500
Total liabilities and fund balances	\$ 4,124,101	1,815,119	1,190,394	2,631,758

See notes to financial statements.



Community Betterment	Capital Projects	Nonmajor Special Revenue	Total
397,523	104,169	591,745	5,046,633
-	-	-	15,389
-	-	-	5,128,285
-	-	-	19,598
5,397	-	17,159	71,585
-	-	251	886
-	-	-	2,005
69,100	-	368	383,879
-	-	-	194,049
-	-	-	84,775
472,020	104,169	609,523	10,947,084

12,989	879	13,798	149,133
2,780	-	-	23,042
-	-	-	2,005
25	-	-	171,797
-	-	-	5,128,285
-	-	-	29,945
15,794	879	13,798	5,504,207

-	-	-	157,893
-	-	-	84,775
-	-	-	528,380
456,226	-	595,725	4,568,539
-	103,290	-	103,290
456,226	103,290	595,725	5,442,877
472,020	104,169	609,523	10,947,084

HENRY COUNTY, IOWA  
 Reconciliation of the Balance Sheet - Governmental Funds  
 to the Statement of Net Assets  
 June 30, 2005

**Total governmental fund balances (page 13)** \$ 5,442,877

*Amounts reported for governmental activities in the Statement of Net Assets are different because:*

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$34,974,676 and the accumulated depreciation is \$12,331,987. 22,642,689

Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds. 29,945

Long-term liabilities, including compensated absences payable and accrued interest are not due and payable in the current period, and therefore, are not reported in the funds. (427,721)

**Net assets of governmental activities (page 11)** \$ 27,687,790

See notes to financial statements.

HENRY COUNTY, IOWA  
Statement of Revenues, Expenditures and  
Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2005

	General	Special Revenue		
		Mental Health	Rural Services	Secondary Roads
Revenues:				
Property and other county tax	\$ 2,865,329	802,760	928,459	4,717
Interest and penalty on property tax	61,687	-	-	-
Intergovernmental	426,547	912,906	142,531	2,554,841
Licenses and permits	425	-	-	2,030
Charges for service	400,475	338,787	1,181	56,172
Use of money and property	118,421	2,210	-	254
Miscellaneous	51,404	9,953	-	19,355
Total revenues	3,924,288	2,066,616	1,072,171	2,637,369
Expenditures:				
Operating:				
Public safety and legal services	1,504,370	-	205,172	-
Physical health and social services	506,616	-	-	-
Mental health	-	2,079,953	-	-
County environment and education	344,854	-	-	-
Roads and transportation	-	-	-	2,949,915
Governmental services to residents	408,857	-	-	-
Administration	970,978	-	-	-
Non-program	17,251	-	-	-
Capital projects	16,453	-	42,547	181,684
Total expenditures	3,769,379	2,079,953	247,719	3,131,599
Excess (deficiency) of revenues over (under) expenditur	154,909	(13,337)	824,452	(494,230)
Other financing sources (uses):				
Sale of capital assets	-	-	-	-
Operating transfers in	-	-	-	856,209
Operating transfers out	(170,399)	-	(856,209)	-
Total other financing sources (uses)	(170,399)	-	(856,209)	856,209
Net change in fund balances	(15,490)	(13,337)	(31,757)	361,979
Fund balances beginning of year	786,538	812,611	192,571	2,194,521
Fund balances end of year	\$ 771,048	799,274	160,814	2,556,500

See notes to financial statements.

Community Betterment	Capital Projects	Nonmajor Special Revenue	Total
734,914	-	-	5,336,179
-	-	-	61,687
37,628	-	159,232	4,233,685
-	-	-	2,455
30,596	-	42,267	869,478
-	-	1,393	122,278
2,500	-	1,384	84,596
805,638	-	204,276	10,710,358

353,132	-	12,562	2,075,236
610,128	-	-	1,116,744
-	-	-	2,079,953
-	-	7,713	352,567
-	-	-	2,949,915
320,429	-	30,128	759,414
73,376	-	-	1,044,354
31,307	-	-	48,558
-	61,180	27,752	329,616
1,388,372	61,180	78,155	10,756,357
(582,734)	(61,180)	126,121	(45,999)

-	-	75,714	75,714
-	-	170,399	1,026,608
-	-	-	(1,026,608)
-	-	246,113	75,714

(582,734)	(61,180)	372,234	29,715
1,038,960	164,470	223,491	5,413,162
456,226	103,290	595,725	5,442,877

HENRY COUNTY, IOWA  
Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances - Governmental Funds  
to the Statement of Activities  
Year Ended June 30, 2005

Net change in fund balances - total governmental funds (page 15) \$ 29,715

*Amounts reported for governmental activities in the Statement of Activities are different because:*

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate expenditures over the estimated useful lives of the assets. Capital outlay expenditures and contributed capital assets exceeded depreciation expense in the current year as follows:

Expenditures for capital assets	\$ 1,683,641	
Capital assets contributed by the Iowa Department of Transportation	433,450	
Depreciation expense	<u>(1,221,826)</u>	895,265

On the Statement of Activities, the loss on disposition of capital assets is reported whereas the governmental funds report the proceeds from the sale as an increase in financial resources. (22,770)

Because some of the revenues will not be collected for several months after the County's year end, they are not considered available revenues and are deferred in the governmental funds as follows:

Property tax	1,177	
Other	<u>56</u>	1,233

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year debt repayments are as follows:

Note principal		38,936
----------------	--	--------

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:

Compensated absences	(17,218)	
Interest on long-term debt	<u>1,071</u>	<u>(16,147)</u>

Change in net assets of governmental activities (page 12) \$ 926,232

HENRY COUNTY, IOWA  
Statement of Fiduciary Assets and Liabilities  
Agency Funds  
June 30, 2005

**Assets**

Cash and pooled investments:	
County Treasurer	\$ 1,130,415
Other County officials	53,061
Receivables:	
Property tax:	
Delinquent	44,890
Succeeding year	13,327,947
Accounts	2,608
Accrued interest	434
Due from other funds	368
Due from other governments	1,261
Total assets	<u>14,560,984</u>

**Liabilities**

Accounts payable	3,518
Salaries and benefits payable	1,320
Due to other funds	368
Due to other governments	14,516,228
Trusts payable	29,703
Compensated absences	9,847
Total liabilities	<u>14,560,984</u>
Net assets	<u>\$ -</u>

See notes to financial statements.

# HENRY COUNTY, IOWA

## Notes to Financial Statements June 30, 2005

### Note 1 – Summary of Significant Accounting Policies

Henry County, Iowa is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff, and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance, and general administrative services.

The County's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

#### A. Reporting Entity

For financial reporting purposes, Henry County, Iowa has included all funds, organizations, agencies, boards, commissions and authorities. The County has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the County. The County has no component units that meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The County participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The County Board of Supervisors are members of or appointed representatives to the following boards and commissions: County Assessor's Conference Board, County Emergency Management Commission and County Joint E-911 Service Board. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

(continued)

# HENRY COUNTY, IOWA

## Notes to Financial Statements (Continued)

June 30, 2005

### Note 1 – Summary of Significant Accounting Policies (Continued)

#### A. Reporting Entity (Continued)

The County also participates in the following additional jointly governed organizations established pursuant to Chapter 28E of the Code of Iowa: Intergovernmental Agreement, Great River Regional Waste Authority, Multi-County Cooperative Child Support Agreement, Intergovernmental Transportation, Case Management, and certain other organizations.

#### B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the County and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues, and other nonexchange transactions.

The Statement of Net Assets presents the County's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

(continued)



# HENRY COUNTY, IOWA

## Notes to Financial Statements (Continued)

June 30, 2005

### Note 1 – Summary of Significant Accounting Policies (Continued)

#### B. Basis of Presentation (Continued)

Fund Financial Statements – Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The County reports the following major governmental funds:

The General Fund is the general operating fund of the County. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, the fixed charges and the capital improvement costs that are not paid from other funds.

#### Special Revenue:

The Mental Health Fund is used to account for property tax and other revenues designated to be used to fund mental health, mental retardation, and developmental disabilities services.

The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the county outside of incorporated city areas.

The Secondary Roads Fund is used to account for secondary road construction and maintenance.

The Community Betterment Fund is used to account for local option sales tax and other revenues to be used for various community projects.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

Additionally, the County reports the following funds:

Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units and/or other funds.

(continued)

# HENRY COUNTY, IOWA

## Notes to Financial Statements (Continued)

June 30, 2005

### Note 1 – Summary of Significant Accounting Policies (Continued)

#### C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursements grant resources to such programs, followed by categorical block grants, and then by general revenues.

The County maintains its financial records on the cash basis. The financial statements of the County are prepared by making memorandum adjusting entries to the cash basis financial records.

(continued)

# HENRY COUNTY, IOWA

## Notes to Financial Statements (Continued) June 30, 2005

### Note 1 – Summary of Significant Accounting Policies (Continued)

#### D. Assets, Liabilities, and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investments are stated at fair value except for the investment in the Iowa Public Agency Trust, which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March, 2004.

Interest and Penalty on Property Tax Receivable – Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable but has not been collected.

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2005, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

(continued)

# HENRY COUNTY, IOWA

## Notes to Financial Statements (Continued)

June 30, 2005

### Note 1 – Summary of Significant Accounting Policies (Continued)

#### D. Assets, Liabilities, and Fund Equity (Continued)

Inventories – Inventories are valued at cost using the first-in, first-out method. Inventories in the Special Revenue Funds consist of expendable supplies held for consumption. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets – Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the government), are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Infrastructure	\$65,000
Land	5,000
Buildings, machinery and equipment	5,000

Capital assets of the County are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Infrastructure	10 – 65
Buildings, machinery and equipment	3 – 50

Due to Other Governments – Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Trusts Payable – Trusts payable represents amounts due to others which are held by various County officials in fiduciary capacities until the underlying legal matters are resolved.

(continued)

# HENRY COUNTY, IOWA

## Notes to Financial Statements (Continued)

June 30, 2005

### Note 1 – Summary of Significant Accounting Policies (Continued)

#### D. Assets, Liabilities, and Fund Equity (Continued)

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2005. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Mental Health, Rural Services, and Secondary Roads Funds.

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Assets. In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

#### E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, certain departments exceeded the amounts appropriated.

# HENRY COUNTY, IOWA

## Notes to Financial Statements (Continued) June 30, 2005

### Note 2 – Cash and Pooled Investments

The County's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The County is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Supervisors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2005 the County had \$1,995,000 invested in certificates of deposit.

In addition, the County had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$3,019,292 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk. The County's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the County.

### Note 3 – Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue: Secondary Roads	Special Revenue: Rural Services	\$ 856,209
Special Revenue: Resource Enhancement and Protection	General	<u>170,399</u>
		<u>\$ 1,026,608</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

# HENRY COUNTY, IOWA

## Notes to Financial Statements (Continued) June 30, 2005

### Note 4 – Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

	Notes Payable	Landfill Closure and Post Closure Costs	Compensated Absences	Total
Balance beginning of year	\$ 120,348	174,000	204,850	499,198
Increase	-	-	-	-
Decrease	38,936	-	34,780	73,716
Balance end of year	\$ 81,412	174,000	170,070	425,482
Due within one year	\$ 40,104	-	170,070	210,174

### Note 5 – Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2005 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Special Revenue: Secondary Roads	Special Revenue: Mental Health General	\$ 115 <u>1,890</u>
Total		\$ <u>2,005</u>

# HENRY COUNTY, IOWA

## Notes to Financial Statements (Continued) June 30, 2005

### Note 6 – Due to Other Governments

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments is as follows:

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
General	Services	<u>\$ 11,829</u>
Special Revenue:		
Mental Health	Services	157,632
Secondary Roads	Services	2,311
Community Betterment	Services	<u>25</u>
		<u>159,968</u>
Total for governmental funds		<u>\$ 171,797</u>
Agency:		
County Assessor	Collections	\$ 485,802
Schools		8,423,463
Community Colleges		561,914
Corporations		3,520,681
E911 Surcharge		205,181
Auto License and Use Tax		342,233
County Hospital		460,761
Agricultural Extension		164,977
All Other		<u>351,216</u>
Total for agency funds		<u>\$14,516,228</u>



# HENRY COUNTY, IOWA

## Notes to Financial Statements (Continued)

June 30, 2005

### Note 7 – Capital Assets

Capital assets activity for the year ended June 30, 2005 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 3,702,010	-	-	3,702,010
Work in Progress	1,147,207	-	1,046,020	101,187
Total capital assets not being depreciated	<u>4,849,217</u>	-	<u>1,046,020</u>	<u>3,803,197</u>
Capital assets being depreciated:				
Buildings, machinery and equipment	6,044,521	655,482	259,855	6,440,148
Infrastructure	22,223,702	2,507,629	-	24,731,331
Total capital assets being depreciated	<u>28,268,223</u>	<u>3,163,111</u>	<u>259,855</u>	<u>31,171,479</u>
Less accumulated depreciation for:				
Buildings, machinery and equipment	3,180,030	402,990	237,085	3,345,935
Infrastructure, road network	8,167,216	818,836	-	8,986,052
Total accumulated depreciation	<u>11,347,246</u>	<u>1,221,826</u>	<u>237,085</u>	<u>12,331,987</u>
Total capital assets being depreciated, net	<u>16,920,977</u>	<u>1,941,285</u>	<u>22,770</u>	<u>18,839,492</u>
Governmental activities capital assets, net	<u>\$21,770,194</u>	<u>1,941,285</u>	<u>1,068,790</u>	<u>22,642,689</u>

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety and legal services	\$ 51,420
Physical health and social services	6,038
County environment and education	26,058
Roads and transportation	1,088,020
Governmental services to residents	3,335
Administration	11,329
Non-program	23,081
Capital Projects	<u>12,545</u>
Total depreciation expense – governmental activities	<u>\$ 1,221,826</u>

# HENRY COUNTY, IOWA

## Notes to Financial Statements (Continued)

June 30, 2005

### Note 8 – Operating Leases

Henry County Iowa leases facilities for its operations. The terms and payments are as follows:

<u>Lessor</u>	<u>Lease Terms</u>	<u>Monthly Leases</u>
Mertens Rental Properties	6/1/05 to 5/31/06	\$575

### Note 9 – Risk Management

Henry County is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 509 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property and inland marine. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The County's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contributions to the Pool for the year ended June 30, 2005 were \$166,126.

(continued)

# HENRY COUNTY, IOWA

## Notes to Financial Statements (Continued) June 30, 2005

### Note 9 – Risk Management (Continued)

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2005, no liability has been recorded in the County's financial statements. As of June 30, 2005, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution that the withdrawing member would have made for the one-year period following withdrawal.

The County also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$500,000 and \$100,000, respectively. The County assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

# HENRY COUNTY, IOWA

## Notes to Financial Statements (Continued)

June 30, 2005

### Note 10 – Closure and Post-Closure Care Costs

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The closure and post-closure care costs have been estimated at \$435,000. Henry County's portion of the estimated liability is \$174,000 which represents 40% of the total estimated cost. A liability has been reported on these costs in the statement of net assets. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The County budgets annually for the costs of testing at the landfill.

### Note 11 – Garbage and Recycling Service Agreement

The County entered into a garbage and recycling services agreement with Whaley Waste System during the year ended May 14, 2002. The agreement is a five-year contract effective July 1, 2002. The County will pay \$6,850 per month plus disposal charges. On January 25, 2005, the County entered into an amendment to the agreement that increases the monthly cost to \$7,325 per month plus disposal charges. The amendment did not change the duration of the contract.

### Note 12 – Pension and Retirement Benefits

The County contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits that are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of the annual covered payroll, except for law enforcement employees, in which case the percentages for the year ended June 30, 2005 are 5.10% and 7.66%, respectively. For the year ended June 30, 2004, the contribution rates for law enforcement employees and the County were 4.99% and 7.48%, respectively, and for the year ended June 30, 2003, the contribution rates for law enforcement employees and the County were 5.37% and 7.48%, respectively. Contribution requirements are established by State statute. The County's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$219,111, \$204,479, and \$213,346 respectively, equal to the required contributions for each year.

# HENRY COUNTY, IOWA

## Notes to Financial Statements (Continued) June 30, 2005

### Note 13 – Disposal Capacity Assurance Agreement

The County entered into a contract on June 28, 1995 with the Great River Regional Waste Authority for the assurance of landfill capacity. The County will pay an annual sum of \$15,063.91 for fifteen years. The annual payments will be due July 1st of each year, with the first payment due July 1, 1995, and the final payment due July 1, 2009. In return, the Authority will reserve 1,250 tons of rural residential waste disposal capacity per year from July 1, 1995, to June 30, 2010.

### Note 14 – Commitments

Henry County has pledged \$122,468 to the Mt. Pleasant Library and Community Center. The amount will be paid over a three-year period starting in the fiscal year ending June 30, 2005.

The County has the following commitments at June 30, 2005:

<u>Project</u>	<u>Vendor</u>	<u>Amount</u>
Courtland Street	Mike Nelson Concrete Paving	\$ 101,187
Two dump trucks	Centre State International	149,565
80 acres	Rodney & Darlene Mehaffy	141,200
Financial consulting	Ruan Consulting	2,500
Window replacement	Howard Green	16,700
Window replacement	REEP, Inc.	143,006
Courthouse security/fire system	Mt. Pleasant Electric	72,450
Book printing	Henry County Historical Preservation Commission	3,000

### Note 15 – Pending Litigation

As of December 15, 2005, Henry County is a party in three lawsuits. Two of the suits are assessment appeals, and one is a suit protesting the denial of a zoning request. In each of the matters for which a petition was filed, answers to the petition and/or interrogatories have been filed.

### Note 16 – Economic Development Revolving Loan

Henry County created an Economic Development Revolving Loan Fund on March 30, 2004. Pursuant to the Development Plan entered into by Henry County Industrial Development Corporation and the City of Mt. Pleasant, Iowa, pursuant to the Urban Renewal Plan of the City of Mt. Pleasant, and all applicable State and Federal Laws including Iowa Code Chapters 368 and 403, Henry County Industrial Development Corporation has acquired and developed Crossroads Industrial Park to provide sites for industrial development. The amount of \$300,000 from the County's receipt of local sales and service tax receipts will be made available for purposes of economic development through issuance of a loan to the Henry County Industrial Development Corporation. Also, the amount of \$100,000 is made available for the creation of an Economic Development Revolving Loan Fund.

# HENRY COUNTY, IOWA

## Notes to Financial Statements (Continued) June 30, 2005

### Note 17 – Notes Payable

The County entered into a loan agreement with the Department of Economic Development dated February 2, 1990. The following is a schedule of the future note payments including interest at 3% per annum:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 40,104	2,443	42,547
2007	<u>41,308</u>	<u>1,239</u>	<u>42,547</u>
Total	\$ <u>81,412</u>	<u>3,682</u>	<u>85,094</u>

HENRY COUNTY, IOWA  
 Budgetary Comparison Schedule of  
 Receipts, Disbursements and Changes in Fund Balances -  
 Budget and Actual (Cash Basis) - All Governmental Funds  
 Required Supplementary Information  
 Year Ended June 30, 2005

	Actual	Less Funds not Required to be Budgeted
Receipts:		
Property and other County tax	\$ 5,324,477	-
Interest and penalty on property tax	58,486	-
Intergovernmental	4,214,187	-
Licenses and permits	25,087	-
Charges for services	826,036	-
Use of money and property	124,844	-
Miscellaneous	88,071	-
Total receipts	<u>10,661,188</u>	<u>-</u>
Disbursements:		
Public safety and legal services	2,095,651	-
Physical health and social services	1,133,876	-
Mental health	2,015,034	-
County environment and education	682,042	-
Roads and transportation	3,045,680	-
Governmental services to residents	440,729	-
Administration	1,059,188	-
Non-program	16,141	-
Capital projects	322,945	-
Total disbursements	<u>10,811,286</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	(150,098)	-
Other financing sources net	<u>58,973</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(91,125)	-
Balance beginning of year	<u>5,137,758</u>	<u>-</u>
Balance end of year	<u><u>\$ 5,046,633</u></u>	<u><u>-</u></u>

See accompanying independent auditors' report

Net	Budgeted Amounts		Final to Actual
	Original	Final	Net Variance
5,324,477	5,233,618	5,305,618	18,859
58,486	15,600	15,600	42,886
4,214,187	4,009,609	4,195,738	18,449
25,087	20,475	20,475	4,612
826,036	681,000	757,500	68,536
124,844	84,128	84,128	40,716
88,071	18,050	57,508	30,563
10,661,188	10,062,480	10,436,567	224,621
2,095,651	2,053,055	2,227,590	131,939
1,133,876	1,061,617	1,214,568	80,692
2,015,034	2,363,462	2,363,462	348,428
682,042	706,184	706,484	24,442
3,045,680	3,249,050	3,249,050	203,370
440,729	450,663	498,563	57,834
1,059,188	978,790	1,100,837	41,649
16,141	32,600	32,600	16,459
322,945	968,197	968,197	645,252
10,811,286	11,863,618	12,361,351	1,550,065
(150,098)	(1,801,138)	(1,924,784)	1,774,686
58,973	-	35,201	23,772
(91,125)	(1,801,138)	(1,889,583)	1,798,458
5,137,758	3,490,460	1,994,247	3,143,511
5,046,633	1,689,322	104,664	4,941,969



HENRY COUNTY, IOWA  
 Budgetary Comparison Schedule -  
 Budget to GAAP Reconciliation  
 Required Supplementary Information  
 Year Ended June 30, 2005

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 10,661,188	49,170	10,710,358
Expenditures	10,811,286	(54,929)	10,756,357
Net	(150,098)	104,099	(45,999)
Other financing sources, net	58,973	16,741	75,714
Beginning fund balances	5,137,758	275,404	5,413,162
Ending fund balances	\$ 5,046,633	396,244	5,442,877

See accompanying independent auditors' report

# HENRY COUNTY, IOWA

## Notes to Required Supplementary Information- Budgetary Reporting

June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds, except blended component units and Agency Funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year-end.

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund or fund type. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service, and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, and Capital Projects Funds. Although the budget document presents functions disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, a budget amendment increased budgeted disbursements by \$497,733. The budget amendment is reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board, for the E911 System by the Joint E911 Service Board and for Emergency Management Services by the County Emergency Management Commission.

During the year ended June 30, 2005, disbursements in certain departments exceeded the amounts appropriated.

HENRY COUNTY, IOWA  
Combining Balance Sheet  
Nonmajor Special Revenue Funds  
June 30, 2005

	Resource Enhancement and Protection	County Recorder's Records Management	Economic Development
<u>Assets</u>			
Cash and pooled investments	\$ 171,121	12,239	187,250
Receivables:			
Accounts	-	-	16,741
Accrued interest	238	13	-
Due from other governments	-	368	-
Total assets	<u>\$ 171,359</u>	<u>12,620</u>	<u>203,991</u>
<u>Liabilities and Fund Equity</u>			
Liabilities:			
Accounts payable	\$ 7,413	-	-
Salaries and benefits payable	-	-	-
Due to other governments	-	-	-
Total liabilities	<u>7,413</u>	<u>-</u>	<u>-</u>
Fund equity:			
Unreserved	<u>163,946</u>	<u>12,620</u>	<u>203,991</u>
Total liabilities and fund equity	<u>\$ 171,359</u>	<u>12,620</u>	<u>203,991</u>

Conservation Land Acquisition Trust	County Recorder's Electronic Transaction Fee	Attorney's Case Management Project Fund	Total
60,596	8,084	152,455	591,745
418	-	-	17,159
-	-	-	251
-	-	-	368
61,014	8,084	152,455	609,523
600	-	5,785	13,798
-	-	-	-
-	-	-	-
600	-	5,785	13,798
60,414	8,084	146,670	595,725
61,014	8,084	152,455	609,523

HENRY COUNTY, IOWA  
 Combined Schedule of Revenues, Expenditures and  
 Changes in Fund Balances  
 Nonmajor Special Revenue Funds  
 Year Ended June 30, 2005

	Resource Enhancement and Protection	County Recorder's Records Management	Economic Development
Revenues:			
Intergovernmental	\$ -	-	-
Charges for service	-	3,792	-
Use of money and property	960	112	-
Miscellaneous	-	-	-
Total revenues	960	3,904	-
Expenditures:			
Operating:			
Public safety and legal services	-	-	-
County environment and education	7,413	-	300
Governmental services to residents	-	969	-
Capital projects	-	-	-
Total expenditures	7,413	969	300
Excess (deficiency) of revenues over (under) expenditures	(6,453)	2,935	(300)
Other financing sources (uses):			
Sale of capital assets	-	-	75,714
Operating transfers in	170,399	-	-
Total other financing sources	170,399	-	75,714
Excess (deficiency) of revenues and other financing sources over (under) expenditures	163,946	2,935	75,414
Fund balances beginning of year	-	9,685	128,577
Fund balances end of year	\$ 163,946	12,620	203,991

See accompanying independent auditors' report.

Conservation Land Acquisition Trust	County Recorder's Electronic Transaction Fee	Attorney's Case Management Project Fund	Total
-	-	159,232	159,232
26,264	12,211	-	42,267
-	321	-	1,393
1,384	-	-	1,384
27,648	12,532	159,232	204,276

-	-	12,562	12,562
-	-	-	7,713
-	29,159	-	30,128
27,752	-	-	27,752
27,752	29,159	12,562	78,155

(104)	(16,627)	146,670	126,121
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-	-	-	75,714
-	-	-	170,399
-	-	-	246,113

(104)	(16,627)	146,670	372,234
60,518	24,711	-	223,491
60,414	8,084	146,670	595,725

HENRY COUNTY, IOWA  
Combining Schedule of Fiduciary Assets and Liabilities  
Agency Funds  
June 30, 2005

	County Offices			Agricultural	
	County	County	County	Extension	County
	Recorder	Sheriff	Facility	Education	Assessor
<u>Assets</u>					
Cash and pooled investments					
County Treasurer	\$ -	-	-	2,532	202,183
Other County officials	23,520	20,816	8,725	-	-
Receivables:					
Property tax:					
Delinquent	-	-	-	509	924
Succeeding year	-	-	-	161,936	294,183
Accounts	170	-	-	-	119
Accrued interest	-	-	-	-	-
Due from other funds	-	-	-	-	-
Due from other governments	-	-	-	-	-
Total assets	\$ 23,690	20,816	8,725	164,977	497,409
<u>Liabilities</u>					
Accounts payable	-	-	-	-	440
Salaries and benefits payable	-	-	-	-	1,320
Due to other funds	368	-	-	-	-
Due to other governments	23,322	-	-	164,977	485,802
Trusts payable	-	20,816	8,725	-	-
Compensated absences	-	-	-	-	9,847
Total liabilities	\$ 23,690	20,816	8,725	164,977	497,409

(continued)

See accompanying independent auditors' report.

Schools	Community		Townships
	Colleges	Corporations	
141,370	8,872	70,952	1,573
-	-	-	-
26,957	1,724	12,964	279
8,255,136	551,318	3,436,765	107,460
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
8,423,463	561,914	3,520,681	109,312
-	-	-	-
-	-	-	-
-	-	-	-
8,423,463	561,914	3,520,681	109,312
-	-	-	-
-	-	-	-
8,423,463	561,914	3,520,681	109,312



HENRY COUNTY, IOWA  
Combining Schedule of Fiduciary Assets and Liabilities (Continued)  
Agency Funds  
June 30, 2005

	E911 Surcharge	Fire Districts	Advance Tax	Auto License and Use Tax	County Recorder's Electronic Transaction Fee
<u>Assets</u>					
Cash and pooled investments					
County Treasurer	\$ 204,280	1,313	162	342,233	274
Other County officials	-	-	-	-	-
Receivables:					
Property tax:					
Delinquent	-	189	-	-	-
Succeeding year	-	95,472	-	-	-
Accounts	2,319	-	-	-	-
Accrued interest	304	-	-	-	-
Due from other funds	-	-	-	-	368
Due from other governments	1,261	-	-	-	-
Total assets	\$ 208,164	96,974	162	342,233	642
<u>Liabilities</u>					
Accounts payable	\$ 2,983	-	-	-	-
Salaries and benefits payable	-	-	-	-	-
Due to other funds	-	-	-	-	-
Due to other governments	205,181	96,974	-	342,233	642
Trusts payable	-	-	162	-	-
Compensated absences	-	-	-	-	-
Total liabilities	\$ 208,164	96,974	162	342,233	642

See accompanying independent auditor's report.

County Hospital	Civil Defense Emergency Management	Tax Sale Redemption Trust	Brucellosis and Tuberculosis Eradication	Empowerment Fund	Total
33,747	18,482	31,139	200	71,103	1,130,415
-	-	-	-	-	53,061
1,337	-	-	7	-	44,890
425,677	-	-	-	-	13,327,947
-	-	-	-	-	2,608
-	-	-	-	130	434
-	-	-	-	-	368
-	-	-	-	-	1,261
460,761	18,482	31,139	207	71,233	14,560,984
-	95	-	-	-	3,518
-	-	-	-	-	1,320
-	-	-	-	-	368
460,761	18,387	31,139	207	71,233	14,516,228
-	-	-	-	-	29,703
-	-	-	-	-	9,847
460,761	18,482	31,139	207	71,233	14,560,984

HENRY COUNTY, IOWA  
Combining Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Funds  
Year Ended June 30, 2005

	County Offices				Agricultural Extension Education
	County Auditor	County Recorder	County Sheriff	County Facility	
Assets and Liabilities					
Balances beginning of year	\$ 4,480	22,517	36,490	6,535	165,883
Additions:					
Property and other County tax	-	-	-	-	157,072
E-911 surcharge	-	-	-	-	-
State tax credits	-	-	-	-	974
Office fees and collections	-	249,838	-	-	-
Electronic transaction fee	-	-	-	-	-
Interest on investments	28	-	-	-	-
Auto licenses, use tax and postage	-	-	-	-	-
Assessments	-	-	-	-	-
Trusts	-	-	706,530	124,426	-
Miscellaneous	-	-	-	-	-
Total additions	28	249,838	706,530	124,426	158,046
Deductions:					
Agency remittances:					
To other funds	-	115,276	224,150	-	-
To other governments	-	133,389	-	-	158,952
Trusts paid out	4,508	-	498,054	122,236	-
Total deductions	4,508	248,665	722,204	122,236	158,952
Balances end of year	\$ -	23,690	20,816	8,725	164,977

(continued)

See accompanying independent auditors' report

County Assessor	Schools	Community Colleges	Corporations	Townships	E911 Surcharge	Special Assessments
563,379	8,684,398	551,288	3,418,632	102,177	187,037	2,240
282,730	8,048,453	540,198	3,954,018	104,583	-	-
-	-	-	-	-	123,937	-
19,428	474,958	29,532	186,112	6,482	-	-
948	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	2,488	-
-	-	-	-	-	-	-
-	-	-	-	-	-	13,225
-	-	-	-	-	-	-
-	-	-	-	-	-	-
303,106	8,523,411	569,730	4,140,130	111,065	126,425	13,225
-	-	-	-	-	-	-
369,076	8,784,346	559,104	4,038,081	103,930	105,298	15,465
-	-	-	-	-	-	-
369,076	8,784,346	559,104	4,038,081	103,930	105,298	15,465
497,409	8,423,463	561,914	3,520,681	109,312	208,164	-

HENRY COUNTY, IOWA  
Combining Schedule of Changes in Fiduciary  
Assets and Liabilities (Continued)  
Agency Funds  
Year Ended June 30, 2005

Assets and Liabilities	Fire Districts	Advance Tax	Auto License and Use Tax	County Recorder's Electronic Transaction Fee
Balances beginning of year	\$ 96,948	9,450	354,607	1,985
Additions:				
Property and other County tax	92,638	-	-	-
E-911 surcharge	-	-	-	-
State tax credits	5,218	-	-	-
Office fees and collections	-	-	-	-
Electronic transaction fee	-	-	-	3,795
Interest on investments	-	-	-	-
Auto licenses, use tax and postage	-	-	3,925,392	-
Assessments	-	-	-	-
Trusts	-	-	-	-
Miscellaneous	-	1,387	-	-
Total additions	97,856	1,387	3,925,392	3,795
Deductions:				
Agency Remittances:				
To other funds	-	-	-	-
To other governments	97,830	-	3,937,766	5,138
Trusts paid out	-	10,675	-	-
Total deductions	97,830	10,675	3,937,766	5,138
Balances end of year	\$ 96,974	162	342,233	642

See accompanying independent auditors' report

County Hospital	Civil Defense Emergency Management	Tax Sale Redemption Trust	Brucellosis and Tuberculosis Eradication	Empowerment Fund	Total
451,921	15,829	18,651	160	65,849	14,760,456
412,607	-	-	2,933	-	13,595,232
-	-	-	-	-	123,937
22,619	-	-	120	-	745,443
-	-	-	-	-	250,786
-	-	-	-	-	3,795
-	-	-	-	1,175	3,691
-	-	-	-	-	3,925,392
-	-	-	-	-	13,225
-	-	-	-	-	830,956
-	62,014	201,469	-	136,519	401,389
435,226	62,014	201,469	3,053	137,694	19,893,846
-	-	-	-	-	339,426
426,386	59,361	188,981	3,006	132,310	19,118,419
-	-	-	-	-	635,473
426,386	59,361	188,981	3,006	132,310	20,093,318
460,761	18,482	31,139	207	71,233	14,560,984

HENRY COUNTY, IOWA  
Schedule of Revenues By Source and Expenditures by Function -  
All Governmental Funds  
For the Last Four Years

		Modified Accrual Basis			
		2005	2004	2003	2002
Revenues:					
Property and other county tax	\$	5,336,179	4,379,581	4,764,947	4,789,039
Interest and penalty on property tax		61,687	65,711	186,253	59,776
Intergovernmental		4,233,685	4,536,342	3,582,143	3,831,461
Licenses and permits		2,455	425	5,605	7,780
Charges for service		869,478	787,498	682,749	668,192
Use of money and property		122,278	82,151	106,483	240,211
Miscellaneous		84,596	448,703	221,634	53,794
Total	\$	10,710,358	10,300,411	9,549,814	9,650,253
Expenditures:					
Operating:					
Public safety and legal services	\$	2,075,236	1,985,029	1,808,178	1,660,734
Physical health and social services		1,116,744	674,561	819,266	566,556
Mental health		2,079,953	1,938,760	2,115,734	2,134,805
County environment and education		352,567	630,331	627,944	547,983
Roads and transportation		2,949,915	2,640,111	2,648,650	2,874,376
Governmental services to residents		759,414	675,291	507,507	395,897
Administration		1,044,354	1,410,046	906,120	838,547
Non-program		48,558	85,211	86,691	14,103
Capital projects		329,616	555,458	650,530	581,618
Total	\$	10,756,357	10,594,798	10,170,620	9,614,619

See accompanying independent auditors' report.



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Independent Auditors' Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance with  
*Government Auditing Standards*

To the Officials of Henry County:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Henry County, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements listed in the table of contents and have issued our report thereon dated February 24, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Henry County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Henry County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-05 is a material weakness.



### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Henry County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Henry County and other parties to whom Henry County may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and the assistance extended to us by personnel of Henry County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Theobald, Donohue & Thompson, P.C.*

Mt. Pleasant, Iowa  
February 24, 2006

# HENRY COUNTY, IOWA

## Schedule of Findings Year Ended June 30, 2005

### **Part I: Summary of the Independent Auditors' Results:**

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

(continued)

# HENRY COUNTY, IOWA

## Schedule of Findings (Continued) Year Ended June 30, 2005

### Part II: Findings Related to the Financial Statements:

#### INSTANCES OF NON-COMPLIANCE:

No matters were reported.

#### REPORTABLE CONDITIONS:

- II-A-05 Segregation of Duties – During our review of internal control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the County's financial statements.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, each official should review the operating procedures of their office to obtain the maximum internal control possible under the circumstances.

Response – With limited staff, we segregate responsibilities the best we can. With a small office it is sometimes hard to separate certain office functions.

Conclusion – Response accepted.

- II-B-05 County Policies – The County does not have a policy regarding personal use of County property.

Recommendation – The County should create a policy regarding the personal use of County property. This should include telephones, computers and County vehicles. Employees need to understand that these items are the property of the County and not to be used for personal reasons.

Response – We have a policy for the use of the Internet. We will work on preparing a policy for the use of the telephones. There is a verbal understanding that the phones are not to be used for long distance calls unless the employees have their own calling card. The Sheriff's Office has a policy regarding the use of their vehicles.

Conclusion – Response accepted.

(continued)

# HENRY COUNTY, IOWA

## Schedule of Findings (Continued) Year Ended June 30, 2005

### **Part III: Other Findings Related to Required Statutory Reporting:**

III-A-05 Official Depositories – A resolution naming official depositories has been approved by the Board of Supervisors. The maximum deposit amounts stated in the resolution were not exceeded during the year, except for deposits at Peoples State Bank. The maximum authorized amount of \$100,000 was exceeded in September 2004 by \$10,000.

Recommendation – A new resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the Board.

Response – On October 12, 2004, the Board of Supervisors increased the maximum authorized deposit amount at Peoples State Bank.

Conclusion – Response accepted.

III-B-05 Certified Budget – Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the administration function.

Recommendation – The budget should have been amended in accordance with Chapter 331.435 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will amend the budget when required.

Conclusion – Response accepted.

III-C-05 Questionable Expenditures – We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-D-05 Travel Expense – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

(continued)

# HENRY COUNTY, IOWA

## Schedule of Findings (Continued) Year Ended June 30, 2005

### **Part III: Other Findings Related to Required Statutory Reporting (Continued):**

- III-E-05 Business Transactions – Business transactions between the County and County officials, employees, or immediate family members of officials or employees were as follows:

<u>Name and Business Connection</u>	<u>Transactions Descriptions</u>	<u>Amount</u>
Smith Plumbing (Husband of Employee)	Building Repairs	\$ 801
Florence Smith (Wife of Janitor)	Janitorial	2,498
Blanca Wittmer (Wife of Sheriff)	Jail Matron Duties	62
Doris Onorato (Wife of Deputy)	Jail Matron Duties	172
Maddy Tree Service	Services	5,485

In accordance with Chapter 331.342 of the Code of Iowa, all of the transactions except with Florence Smith and Maddy Tree Service do not appear to represent a conflict of interest since totals were less than \$1,500 during the fiscal year. Transactions with Florence Smith and Maddy Tree Service may represent a conflict of interest as defined in Chapter 331.342 of the Code of Iowa.

Recommendation – The County should consult legal counsel to determine the disposition of this matter.

- III-F-05 Bond Coverage – Surety bond coverage of County officials and employees is in accordance with statutory provisions.
- III-G-05 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- III-H-05 Deposits and Investments – We noted no instances of non-compliance with deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the County's investment policy.
- III-I-05 Resource Enhancement and Protection Certification – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).

(continued)

# HENRY COUNTY, IOWA

## Schedule of Findings (Continued) Year Ended June 30, 2005

### **Part III: Other Findings Related to Required Statutory Reporting (Continued):**

- III-J-05 County Extension Office – The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an extension council separate and distinct from County operations and, consequently, is not included in Exhibits A or B.

Disbursements during the year ended June 30, 2005 for the County Extension Office did not exceed the amount budgeted.

- III-K-05 Code of Ordinances – The County does not have a Code of Ordinances compiled every five years.

Recommendation – The Code of Ordinances containing all of the County ordinances in effect should be compiled and published as required by Chapter 331.302(9) of the Code of Iowa.

Response – We are in the process of redoing our zoning ordinance and subdivision ordinance. When this is completed, we will comply with Chapter 331.302(9) of the Code of Iowa.

Conclusion – Response accepted.

HENRY COUNTY, IOWA  
Audit Staff

This audit was performed by:

THEOBALD, DONOHUE & THOMPSON, P.C.  
Certified Public Accountants  
Mt. Pleasant, Iowa

Personnel:

Tom Holtkamp, CPA, Principal

Ted M. Wiegand, CPA, Staff Accountant